LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7518 **DATE PREPARED:** Feb 23, 2001
BILL NUMBER: HB 1480 **BILL AMENDED:** Feb 22, 2001

SUBJECT: Various State and Local Taxes.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill makes various changes concerning the Gross Income Tax, the Sales and Use Tax, the Adjusted Gross Income Tax, federal tax refunds for Indiana income taxes owed, ordinances regarding local taxes, and Roth IRAs and educational IRAs.

The bill provides that oil inspection fees collected by licensed gasoline distributors are not gross income.

It removes vehicle identification information from the income tax return.

The bill also provides that the state welfare allocations calculated as part of the financial institutions tax distributions and the motor vehicle excise tax distributions are based on amounts levied by counties for the county welfare fund and the county welfare administration fund, rather than the amounts appropriated from those funds.

The Investment Income Tax Credit is repealed.

The bill also corrects internal references.

This bill provides that the property tax exemption for real property containing certain improvements that were constructed, rehabilitated, or acquired under the federal low income housing tax credit and for which the owner of the property has entered into an agreement to make payments in lieu of taxes applies in Dearborn County. (Under existing law, the exemption applies only in Marion County.)

The bill authorizes Randolph County to impose an additional 0.25% county economic development income tax (CEDIT) rate for the purposes of financing, constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions. It also provides that the additional rate may also be used for the repayment of bonds issued, or leases entered into, for those purposes. The county's CEDIT rate plus the county's county adjusted gross income tax (CAGIT) rate may not exceed 1.5% if the county has imposed the additional CEDIT rate authorized by this bill. It authorizes the county to adopt an ordinance that makes the CEDIT rate increase effective January 1, 2002.

The bill allows South Bend to establish an economic development project district. The bill provides that the district must contain a commercial retail facility with at least 500,000 square feet. It allows sales tax increment financing to be used in the district for road, interchange, and right-of-way improvements and for real property acquisitions to further these purposes. The bill provides that not more than 50% of the net increment each year may be used for these purposes. The bill provides that not more than a total of $1,000,000 of sales tax revenue increment may be captured during the existence of the district.

The bill allows a property tax abatement to a property owner in a town located in a county with a population of more than 50,000 but less than 60,000 if the town approved the abatement but the owner is ineligible because of a failure of the owner to comply with statutory requirements. It provides that the abatement is allowed if the owner and the town comply with all statutory requirements before July 1, 2001.

This bill changes the maximum Knox County innkeeper's tax rate from 3% to 5%.

Effective Date: (Amended) January 1, 1999 (retroactive); Upon passage; January 1, 2001 (retroactive); July 1, 2001; January 1, 2002.

Explanation of State Expenditures: *Vehicle identification information:* This bill deletes the requirement that the Department of State Revenue (DOR) obtain vehicle identification information from taxpayers on the tax return.

Sales Tax Remittance & Reports: The requirement that remitters of sales and use tax pay monthly, but only file reports on a quarterly basis is designed to create administrative savings for the Department and taxpayers.

Explanation of State Revenues: (Revised) *County Remittance*: This bill allows county treasurers to remit gross income tax receipts from the sale or transfer of an interest in real estate to the Department of State Revenue on the 20th day of the month following the end of a quarterly period. Current law requires the remittance to be on the 15th day of the month. This will result in a minimal loss of interest earnings from the five-day delay of receiving these tax receipts, but it will bring the remittance dates in conformity with other tax filing dates.

Use Tax exemption: The bill clarifies that the use tax exemption for tangible personal property processed in Indiana by commercial printers and transported out of Indiana for sole use outside of Indiana applies to property that is delivered into Indiana from sources within or outside the state. Any impact would be negligible.

Definition of dependent: For purposes of the employee medical care savings account plans, the definition of dependent is changed to be consistent with the Internal Revenue Code. This change expands the definition, except for the exclusion of mentally or physically incapacitated children over the age of 18.

Oil Inspection Fees: The bill provides that oil inspection fees collected by licensed gasoline distributors are not considered gross income for purposes of calculating a taxpayer's tax liability. According to the Department of State Revenue, this exemption would result in a $60,000 reduction in Gross Income Tax revenue. This revenue is deposited in the General Fund.

Repealed Tax Credit: This bill also repeals the Investment Income Tax Credit. According to the Department of State Revenue, no one has utilized this credit, so there will be no impact resulting from its repeal.

ERA: The State levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

South Bend Economic Development Project District: The establishment of an economic development project district in South Bend could reduce state sales tax revenue by a total of $1 M. This bill allows the city to establish a district and use up to 50% of the net increment of sales tax revenue generated in the district each year. The overall impact of this provision on state revenue will be determined by local actions. It is not known how much sales tax will be collected and transferred annually.

This bill does not give the city's redevelopment commission the privilege to collect a sales tax. It does, however, allow the commission to capture a portion of the increase in sale tax revenue collected in the district that is *above* the revenue generated in a base year, as determined by the Department of Revenue. The bill limits these collections to a total of $1 M.

Explanation of Local Expenditures: (Revised) *CEDIT:* In accordance with this bill, revenue from the additional CEDIT rate increase of 0.25% would be used to pay the costs of financing, constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions. (Additional revenue would also be used for the repayment of bonds issued, or leases entered into for those purposes.)

It would allow Randolph County to impose the additional CEDIT rate only until the financing on constructing, acquiring, renovating, and equipping the county courthouse and renovating the former county hospital for additional office space, educational facilities, nonsecure juvenile facilities, and other county functions is completed. (Randolph County would then be required to reduce its CEDIT rate in accordance with current law.)

Explanation of Local Revenues: (Revised) *Local Option Taxes:* The bill specifies that if a local unit of government adopts a local option tax, the ordinance must be adopted after January 1 and before April 1 of a year and takes affect on July 1 of the year it was adopted. The local fiscal body must send DOR a certified copy of each ordinance adopted by certified mail not more than 10 days after the ordinance is adopted.

Calculations of Welfare Allocation: The provision which changes the calculation of state welfare allocations to be based on county levies for the county welfare fund and the county welfare administration fund, rather than the amounts appropriated from those funds, clarifies how these distributions are to be made and corresponds to the current practice of other local distributions.

CEDIT: Under current law, counties are allowed to impose CEDIT at a tax rate of up to 0.5% (with certain exceptions). Under this bill, Randolph County would be allowed to impose CEDIT at a tax rate of up to 0.75%.

The CY 2001 CEDIT certified distribution at a .25% rate for Randolph County is $826,220. (As described below in the *Background* section, Randolph County does not currently adopt the maximum CEDIT rate of 0.5% due to its CAGIT rate of 1.0%.) An additional 0.25% CEDIT rate would equal approximately $826,220 in additional revenue for the entire year.

Randolph County would be allowed to adopt the CEDIT rate increase after March 31,2001, which would take effect January 1, 2002. If the County Council imposes the increase as described above, Randolph County would begin receiving revenues beginning in January of 2003. The projected collections for CY 2003 are not available at this time. (However, these amounts are assumed to be approximate to the CY 2001 projected collections.)

Background- For CY 2001, the CEDIT rate for Randolph County is currently .25%. Under current Indiana law (with few exceptions), counties that impose CAGIT and CEDIT may not exceed a combined CAGIT/CEDIT rate of 1.25%. Currently, Randolph County has a combined CAGIT/CEDIT rate of 1.25%.

Randolph County would be allowed to adopt a combined rate of 1.5% until required to reduce its CEDIT rate in accordance with the provisions of this bill.

PILOTS: This proposal would exempt from taxation real property located in Dearborn County and owned by an Indiana corporation if the improvements were constructed, rehabilitated, or acquired to provide low income housing; the property is subject to an extended use agreement; and the owner agrees to make payments in lieu of taxes (PILOTS). (Marion County has a similar exemption available under current law). With the approval of the property owner, the county fiscal body may, under this proposal, adopt an ordinance requiring that the property owner pay PILOTS. The payments would be equal to the taxes that would have been levied on the property if it were not exempt. These payments would be distributed to local taxing units as if they were property tax.

Total local revenues would increase under this proposal. When assessed value is added to the tax base, the property tax levy remains the same, but tax rates are reduced. In this case, the removal (or non-addition) of valuation to the property tax rolls would have the effect of increasing (or not reducing) the tax rates. The PILOTS generated by this property would be considered miscellaneous revenue and would be collected outside of any levy limitations. The actual fiscal impact depends on the number and location of projects approved under this proposal.

ERA: Retroactive to property taxes paid in CY 2000, this bill would allow the Town of Mooresville to grant an abatement if the taxpayer and the town complete all necessary procedures and filings before July 1, 2001. In addition, the taxpayer must have fulfilled all expectations concerning jobs and investment.

One taxpayer has been identified that could qualify for abatement under this bill. The assessed value deduction for CY 2000 would amount to almost $694,000. At the town's CY 2000 net tax rate, the abatement would be worth $61,000. Since this amount would already have been paid, this bill would result in the issuance of a refund. The bill specifies that refunds would not include interest. Property tax refunds are deducted from the affected taxing units' next property tax distribution.

After CY 2000 and through the end of the abatement period, this bill would result in a reduction in the amount of new assessed value added to the tax base in Mooresville. Reducing the tax base causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate.

South Bend Economic Development Project District: If South Bend were to utilize the incremental sales tax provisions in this bill, it could increase local revenue annually by an indeterminable amount. The total amount of sales tax increment is limited to $1 M over the duration of the district. The bill specifies that this revenue could only be used for improvements related to roads, interchanges, and right-of-ways.

Knox County Innkeeper's Tax: This bill changes the maximum Knox County Innkeeper's Tax rate from 3% to 5%. The current 3% tax raised $115,801 in FY 2001. Based on these collections, an additional 2% will an additional $77,200 annually. Revenue from this tax is deposited in the Tourism Promotion Fund. The increase in the tax is dependent on local action.

State Agencies Affected: Auditor's Office; Department of State Revenue.

Local Agencies Affected: Counties; Local units of governments who impose a local option tax; Dearborn County fiscal body; local civil units and school corporations in Dearborn County; Town of Mooresville; Morgan County Auditor; Randolph County; South Bend; Knox County.

Information Sources: Tom Conley, Department of State Revenue; Local Government Database.